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EU Firms' FDI Decisions in China: Dynamic Approaches Testing Eclectic Paradigm

Abstract:

This paper examines the determinants of European Union (EU) foreign direct investment (FDI) in the Chinese market using a new dataset for 680 EU firms from the National Bureau of Statistics of China for the period between 1998 and 2007. It attempts to evaluate the major international business theories to identify the variables affecting the EU FDI inflows to China. The study adopts dynamic panel data analyses and uses the system-GMM estimation method that accounts for the endogeneity (i.e., simultaneity and heterogeneity) problem. We find that FDI is positively linked to firms' innovation and export intensity levels. However, some factors such as technology, personal share ownership and profitability are negatively associated with FDI. In addition, the findings imply that the association of FDI with firm size and research and development intensity is non-linear. The findings have important implications for practitioners and policy making.

Keywords: EU Firms; China; Foreign Direct Investment; Eclectic Paradigm; GMM; Dynamic Panel Data Analysis; OLI.